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Councilwoman - Ward 2**

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COMMITTEES

Finance

Claims and Pending Suits

Dr. Charles V. Chapin Memorial Award

March 15, 2022

The Honorable Marvin L. Abney
Chair, House Finance Committee
Rhode Island State House
82 Smith Street
Providence, RI 02903

Honorable Chair Abney and Members of the Committee,

I am writing in support of House Bill H7499, both of which authorize the city of Providence to finance a contribution towards the unfunded pension liability of the employee retirement system by the issuance of bonds in the principal amount of \$515,000,000.

Today, the City's Employee Retirement System (ERS) is among the lowest funded pension plan in the nation. Since 1991, the City's unfunded pension liability has increased by more than \$1 billion. In addition to the pension liabilities, and over and above the pension shortfall, the City's retiree health benefits are underfunded by approximately \$1.1 billion.

Required ERS funding consumes a greater share of the City's annual spending each year- growing at approximately 5% annually versus the City's revenue growth of about 2% annually. Despite the fact that the City has made its Actuarially Determined Contribution (ADC) payments in full between FY2010 and FY2020, the ERS's funding level has in fact eroded from 34.1% to 22.2%. If the City does not create a more sustainable payment structure, in the coming decade the City will be required to significantly increase taxes and cut services to continue to afford the payments.

After careful review and significant deliberation, the Pension Working Group convened by Mayor Elorza recommended that the City seek authorization to issue a pension obligation bond that deposits \$500 million in the City's Employee Retirement System (ERS).

Doing nothing in this situation poses a greater risk for other Rhode Island municipalities and the state rather than giving the City a tool to solve this financial issue. If the city does nothing, and eventually is required to file for bankruptcy, it is likely that the pension liability will negatively impact the credit ratings of the state and other municipalities.

In addition, to qualify for bankruptcy, the City would need to demonstrate that it has made every effort to avoid bankruptcy. This would include measures such as year over year tax increases (to hit the 4% growth cap), cutting City services, outsourcing services, and selling off assets. These actions would then likely continue under a court-appointed receiver if the City is allowed to enter into bankruptcy proceedings. Simply put, this would devastate residents, urban core businesses, and non-profits.

The fact is that Providence has maintained stable and prudent fiscal positions and is not, nor will be in the near-term, insolvent. Today, the City can pay its current bills, its fiscal outlook is improving (including a rating agency revising the City's outlook from stable to positive), it has closed historical deficits, weathered the COVID-19 pandemic, and- with the passage of this legislation- has a pathway to confront its most pressing fiscal challenge, the ERS. As a result, bankruptcy should not be considered as an option for the City.

The City's options are limited- but, with proper conditions and guardrails, a Pension Obligation Bond of this size represents the best position for the City to both increase the funded status of the ERS and match the City's ADC growth (inclusive of POB debt repayment costs) to the City's conservative, realistic projection of revenues. Both of these outcomes would improve the sustainability of the City's annual budget.

The moment is right for the authorization of this Pension Obligation Bond. We are currently experiencing low borrowing costs and favorable market conditions. Fitch Ratings has affirmed the bond rating of the City at "A-", and for the first time in over eight years, assigned a Positive Outlook to the City's Rating which reduces the cost of a POB.

I strongly urge you to support this legislation and work towards ensuring a financially sustainable future for the City of Providence and its residents. Thank you for your consideration.

Sincerely,



Helen D. Anthony
Providence City Councilwoman, Ward 2
Member of the Pension Working Group